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## #FreeCommunityCollege: equity and efficiency

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### #FreeCommunityCollege: Equity and Efficiency



President Obama recently **unveiled a plan** to make community college tuition-free. As many as 9 million students could benefit, according to the White House. The **price tag is a bit uncertain**, but most estimates have put it at \$60B from the federal government, with the states being responsible for 25% of the costs, another \$20B.

The program will need the approval of Congress and participation by the states. The goal is to increase educational attainment and better prepare students for the job market. The proponents argue that for most future students a community college degree could become what

a high school diploma is today.

“Two years of college will become as free and universal as high school is today,” Obama said.

The president’s education secretary, Arne Duncan, **said on Twitter**: “Just as free K-12 education is an educational and civil right, #FreeCommunityCollege should be as well.”

The announcement has met with mixed reviews.

The first concern focuses on costs. In tight budget times it is not clear that Congress will be interested in a program that costs \$60B, and the additional \$20B required of states may be a burden some states might choose not to bear.

A second concern is equity. The program is not, of course, “free.” Federal and state taxpayers would pay for tuition costs and here the analogy with high school breaks down. The equity implications of funding the two educational models are different in important ways. Most public high schools are funded with property taxes in the district where the schools are located. The recipients of the education are, by and large, the children of the taxpayers. Revenues are collected in a means-tested fashion where better off home owners pay more, and therefore, the costs of education are generally means tested too as children from wealthier families are paying more for their education than those from less well-off families. (There are, of course, further equity concerns as richer districts can choose to offer a different quality education than poorer ones.) Under the free community college tuition plan, the link between the taxpayer and consumers of education is much less clear, potentially raising equity concerns. Many taxpayers will never have children that pursue a community college education. Weakening the link between those paying for a program and its beneficiaries likely weakens the political support for the program.

In addition, the means testing of students is much weaker. Students (and their parents) who pay more in federal and state taxes are indirectly paying more for community college, but with tuition set at zero, the Obama plan is basically a transfer from taxpayers to students, regardless of the individual student's economic circumstances. This may well be a defensible transfer, but most economists would argue that if transferring income for education to students is the goal, then it should be done directly. For example, by offering a grant directly to students that can be used only for education. Such a grant could be means-tested if it was felt that low income students should be the primary beneficiaries.

Finally, and less commented on, are the efficiency concerns. By making community colleges free, the program significantly changes the relative price of 2-year schools compared to 4-year institutions. (A price differential that already exists between most state and private 4-year universities.) This change could have a significant impact on enrollments at 4-year schools and be **detrimental to some students**.

Most high school students have the option of choosing between 2-year and 4-year schools. For those students who ultimately want a bachelor's degree or more, entering a traditional baccalaureate school is often the best option. If this new program alters that choice because of the change in relative tuition costs, the student who previously would have chosen a 4-year school could be worse off. They may pay less in tuition but not be able to study exactly what they had hoped to, or find that their community college credits do not all transfer and they end up spending more time in school. The outcome obviously varies by student, but the new program may lead to significant inefficient sorting of students, with some students "undermatching" their talents and interests by choosing to start in a community college based on price and having a worse undergraduate experience as a result.

The 4000+ options for post-secondary education in the United States serve students well by letting them select the best fit for their talents, interests and previous educational experience. Any public policy that narrows the range of choices, in this case by distorting prices signals, potentially leaves the intended beneficiaries worse off.

These policy debates may well be moot given the political situation in Washington. As one advocate said, "Obama probably won't get this done in the next couple years, but," she argued, "he's laying the groundwork with his message."

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By **Michael Hemesath** | January 19th, 2015 | Categories: **Economics**, **Higher Education** | **0 Comments**

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## About the Author: **Michael Hemesath**

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Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] **PrezHemesath**.